

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

ROYAL OAK TWP HOUSING COMMISSION

Financial Statements

March 31, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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***John C. DiPiero, P.C.***

Certified Public Accountant

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Board of Commissioners  
Royal Oak Twp. Housing Commission  
8900 Cloverdale Avenue  
Ferndale, Michigan 48220

### **Independent Auditor's Report**

I have audited the financial statements listed in the Table of Contents of the Royal Oak Twp. Housing Commission as of and for the year ended March 31, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Royal Oak Twp. Housing Commission as of March 31, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 22, 2004, on my consideration of the Royal Oak Twp. Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountant

December 22, 2004

ROYAL OAK TWP HOUSING COMMISSION  
Combined Balance Sheet  
March 31, 2004

ASSETS

C-3166

CURRENT ASSETS

Cash	\$	171,742	
Accounts Receivable (Net)		1,931	
Investments		440,846	
Prepaid Expenses		31,531	
Inter Program Due From		<u>10,102</u>	
Total Current Assets	\$		656,152

NON CURRENT ASSETS

Land	\$	126,725	
Buildings & Improvements		2,840,682	
Furniture, Equipment- Administrative		96,494	
Leasehold Improvements		3,906,846	
Accumulated Depreciation		<u>(3,550,204)</u>	
Total Non Current Assets			<u>3,418,543</u>

TOTAL ASSETS \$ 4,074,695

ROYAL OAK TWP HOUSING COMMISSION  
Combined Balance Sheet  
March 31, 2004

LIABILITIES & EQUITY

C-3166

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$ 14,739
Accrued Wages & Payroll Taxes	4,333
Accrued Compensated Absences	7,508
Tenants Security Deposit	13,314
Account Payable- Other Government	10,991
Deferred Revenues	12,935
Accrued Liabilities- Other	11,817
Inter Program Due To	<u>10,102</u>

<u>Total Current Liabilities</u>	\$ 85,739
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EQUITY:

Contributed Capital	\$ 2,895,586
Undesignated Fund Balance	<u>1,093,370</u>

<u>Total Equity</u>	<u>3,088,956</u>
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<u>TOTAL LIABILITIES &amp; EQUITY</u>	\$ <u>4,074,695</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

ROYAL OAK TWP HOUSING COMMISSION  
Combined Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended March 31, 2004

Business Type Activities

OPERATING REVENUE

Tenant Rental Revenue	\$ 177,549
HUD Grants	510,539
Interest Income	6,278
Other Income	<u>18,586</u>
 <u>Total Operating Revenue</u>	 \$ 712,952

OPERATING EXPENSES

Administrative	\$ 166,696
Tenant Services	22,079
Utility Expenses	69,046
Ordinary Maintenance	192,444
General Expenses	<u>77,834</u>
 <u>Total Operating Expenses</u>	 <u>528,099</u>
 <u>Operating Income (Loss)</u>	 \$ 184,853

NONOPERATING REVENUES (EXPENSES)

Depreciation Expenses	\$ <u>(309,267)</u>
 <u>Total Nonoperating (Expenses)</u>	 <u>(309,267)</u>
 <u>Change in Net Assets</u>	 \$ (124,414)
 Total Net Assets- Beginning	 <u>4,113,370</u>
 Total Net Assets- Ending	 \$ <u>2,895,586</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

ROYAL OAK TWP HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended March 31, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 179,815
Payments to Suppliers	(622,178)
Payments to Employees	(148,311)
HUD Grants	510,539
Other Receipts (Payments)	<u>24,864</u>
Net Cash Provided (Used) by Operating Activities	\$ (55,271)

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(142,673)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (197,944)
Balance- Beginning of Year	<u>369,686</u>
Balance- End of Year	\$ <u>171,742</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (124,414)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	309,267
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	19,622
Investments	(201,698)
Prepaid Expenses	(23,923)
Interfund Due From	4,576
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(10,307)
Accrued Liabilities	(26,034)
Accrued Compensated Absences	(4,661)
Security Deposits	(992)
Accounts Payable- Other Governments	(2,497)
Deferred Revenue	10,366
Interfund Due To	<u>(4,576)</u>
Net Cash Provided by Operating Activities	\$ <u>(55,271)</u>

The Accompanying Notes are an Integral part of the Financial Statements



ROYAL OAK TWP HOUSING COMMISSION  
Notes to Financial Statements  
March 31, 2004

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

Royal Oak Twp Housing Commission, Ferndale, Michigan, (Commission) was created by ordinance of the Township of Royal Oak. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 33-1, 2	Low rent program	128 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 31, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

### Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### Assets, Liabilities, and Net Assets-

#### Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

Checking Accounts	\$ 65,846
Petty Cash	200
Money Market	<u>105,696</u>
Financial Statement Total	<u>\$ 171,742</u>

Notes to Financial Statements- continued

Investments:

Certificates of Deposit	\$ 241,542
Treasury Bills	<u>199,304</u>
Investment Total	\$ <u>440,846</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 65,846	\$	\$	\$ 65,846	\$ 65,846
Petty Cash	200			200	200
Treasury Bill's	<u>105,696</u>	<u>          </u>	<u>          </u>	<u>105,696</u>	<u>105,696</u>
Total Cash	\$ <u>171,742</u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>171,742</u>	\$ <u>171,742</u>

Investments:

C/D's	\$ 241,542	\$	\$	\$ 241,542	\$ 241,542
Treasury Bill's	<u>199,304</u>	<u>          </u>	<u>          </u>	<u>199,304</u>	<u>199,304</u>
Total Investments	\$ <u>440,846</u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>440,846</u>	\$ <u>440,846</u>

Note 3: Accounts Receivable

Accounts Receivable consist of the following:

Accounts Receivable- Tenants	\$ 11,607	
Allowance for Doubtful Accounts	<u>(9,676)</u>	\$ 1,931
Accounts Receivable- Other	\$ 4,655	
Allowance for Doubtful Accounts	<u>(4,655)</u>	<u>0</u>
		\$ <u>1,931</u>

Note 4: Prepaid Expenses

Prepaid expenses consist of unused insurance premiums covering future periods. The benefits of the insurance will be written off systematically over the remaining periods until fully expired.

Notes to Financial Statements- continued

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 126,725	\$	\$	\$ 126,725
Buildings	2,840,682			2,840,682
Furniture & Equipment-Admin	83,844	10,650		94,494
Leasehold Improvements	<u>3,774,823</u>	<u>132,023</u>		<u>3,906,846</u>
	\$ 6,826,074	\$ 142,673	\$	\$ 6,968,747
Less Accumulated Depreciation	<u>3,240,937</u>	<u>309,267</u>		<u>3,550,204</u>
	\$ <u>3,585,137</u>	\$ <u>(166,594)</u>	\$	\$ <u>3,418,543</u>

Note 6: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after March 31, 1999. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

The following represents the original Capital Contribution of debt as a result of the above classification:

FFB Notes	\$ 450,000
HUD Guaranteed Bonds	2,445,586

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the Combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Notes to Financial Statements- continued

Note 9 :Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended March 31, 2004, is as follows:

Operating Revenue	\$	712,952
Operating Income		184,853
Non Operating Revenue (Expenses)		
Depreciation Expense		(309,267)
Net Profit (Loss)		(124,414)
Non Current Assets (net)		3,418,543
Total Assets		4,074,695
Retained Earnings		1,093,370

Note 10:Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 13,344,872
General Liability	3,000,000
Errors & Omissions	1,000,000
Automobile	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Royal Oak Twp Housing  
Commission

31-Mar-04

MI033

Combining Balance Sheet

Low Rent  
14.850

Capital  
Projects  
Funds  
14.872

TOTAL

Line Item  
#

	<b>ASSETS:</b>			
	<b>CURRENT ASSETS:</b>			
	Cash:			
111	Cash - unrestricted	171,742	-	171,742
112	Cash - restricted - modernization and development		-	-
113	Cash - other restricted			-
114	Cash - tenant security deposits			-
100	Total cash	171,742	-	171,742
	Accounts and notes receivables:			
121	Accounts receivable - PHA projects			-
122	Accounts receivable - HUD other projects	-	-	-
124	Accounts receivable - other government			-
125	Accounts receivable - miscellaneous	4,655	-	4,655
126	Accounts receivable- tenants - dwelling rents	11,607		11,607
126.1	Allowance for doubtful accounts - dwelling rents	(9,676)		(9,676)
126.2	Allowance for doubtful accounts - other	(4,655)		(4,655)
127	Notes and mortgages receivable-current			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivable	-		-
120	Total receivables, net of allowances for doubtful accounts	1,931	-	1,931
	Current investments			-
131	Investments - unrestricted	440,846		440,846
132	Investments - restricted			-
142	Prepaid expenses and other assets	31,531		31,531
143	Inventories			-
143.1	Allowance for obsolete inventories			-
144	Interprogram - due from	-	10,102	10,102
146	Amounts to be provided			-
150	TOTAL CURRENT ASSETS	646,050	10,102	656,152

	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	126,725		126,725
162	Buildings	2,840,682		2,840,682
163	Furniture, equipment & machinery - dwellings	-		-
164	Furniture, equipment & machinery - administration	83,189	11,305	94,494
165	Leasehold improvements	3,642,592	264,254	3,906,846
166	Accumulated depreciation	(3,535,675)	(14,529)	(3,550,204)
160	Total fixed assets, net of accumulated depreciation	3,157,513	261,030	3,418,543
171	Notes and mortgages receivable - non-current			-
172	Notes and mortgages receivable-non-current-past due			-
174	Other assets			-
175	Undistributed debits			-
176	Investment in joint ventures			-
180	TOTAL NONCURRENT ASSETS	3,157,513	261,030	3,418,543
190	TOTAL ASSETS	3,803,563	271,132	4,074,695
	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	14,739		14,739
313	Accounts payable > 90 days past due			-
321	Accrued wage/payroll taxes payable	4,333		4,333
322	Accrued compensated absences	7,508		7,508
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA programs		-	-
332	Accounts Payable - PHA Projects			
333	Accounts payable - other government	10,991		10,991
341	Tenant security deposits	13,314		13,314
342	Deferred revenues	2,833	10,102	12,935
343	Current portion of Long-Term debt - capital projects			-
344	Current portion of Long-Term debt - operating borrowings			-
345	Other current liabilities			-
346	Accrued liabilities - other	11,817	-	11,817
347	Inter-program - due to			



		10,102	-	10,102
310	<b>TOTAL CURRENT LIABILITIES</b>	75,637	10,102	85,739
	<b>NONCURRENT LIABILITIES:</b>			
351	Long-term debt, net of current-capital projects			-
352	Long-term debt, net of current- operating borrowings			-
353	Noncurrent liabilities- other			-
350	<b>TOTAL NONCURRENT LIABILITIES</b>	-	-	-
300	<b>TOTAL LIABILITIES</b>	75,637	10,102	85,739
	<b>EQUITY:</b>			
501	Investment in general fixed assets			-
	Contributed Capital:			
502	Project notes (HUD)	450,225		450,225
503	Long-term debt - HUD guaranteed	450,000		450,000
504	Net HUD PHA contributions	1,995,361	-	1,995,361
505	Other HUD contributions	-		-
507	Other contributions			-
508	Total contributed capital	2,895,586	-	2,895,586
	Reserved fund balance:			-
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	832,340	261,030	1,093,370
513	<b>TOTAL EQUITY</b>	3,727,926	261,030	3,988,956
600	<b>TOTAL LIABILITIES AND EQUITY</b>	3,803,563	271,132	4,074,695

<div> <div></div> <div>Royal Oak Twp. Housing Commission</div> <div>31-Mar-04</div> <div>MI033</div> </div>				
	Combining Income Statement	Low Rent 14.850	Capital Projects Fund 14.872	TOTAL
Line Item #				
	<b>REVENUE:</b>			
703	Net tenant rental revenue	177,549	-	177,549
704	Tenant revenue – other	-	-	-
705	Total tenant revenue	177,549	-	177,549
706	HUD PHA grants	367,516	143,023	510,539
708	Other government grants	-	-	-
711	Investment income – unrestricted	6,278	-	6,278
712	Mortgage interest income	-	-	-
714	Fraud recovery	-	-	-
715	Other revenue	18,586	-	18,586
716	Gain or loss on the sale of fixed assets	-	-	-
720	Investment income – restricted	-	-	-
700	<b>TOTAL REVENUE</b>	569,929	143,023	712,952
	<b>EXPENSES:</b>			
	Administrative			
911	Administrative salaries	68,963	-	68,963
912	Auditing fees	2,950	-	2,950
913	Outside management fees	-	-	-
914	Compensated absences	(4,661)	-	(4,661)
915	Employee benefit contributions- administrative	27,455	-	27,455
916	Other operating- administrative	70,740	1,249	71,989
	Tenant services			
921	Tenant services – salaries	14,466	-	14,466
922	Relocation costs	-	-	-
923	Employee benefit contributions- tenant services	5,756	-	5,756
924	Tenant services – other	1,857	-	1,857
	Utilities			
931	Water	53,481	-	53,481
932	Electricity	8,802	-	8,802
933	Gas	6,763	-	6,763
934	Fuel	-	-	-

935	Labor			-
937	Employee benefit contributions- utilities			-
938	Other utilities expense	-		-
	Ordinary maintenance & operation			
941	Ordinary maintenance and operations – labor	64,882		64,882
942	Ordinary maintenance and operations - materials & other	40,646	-	40,646
943	Ordinary maintenance and operations - contract costs	61,085		61,085
945	Employee benefit contributions- ordinary maintenance	25,831		25,831
	Protective services			
951	Protective services – labor			-
952	Protective services- other contract costs			-
953	Protective services – other			-
955	Employee benefit contributions- protective services			-
	General expenses			
961	Insurance premiums	41,099		41,099
962	Other General Expense	14,367		14,367
963	Payments in lieu of taxes	10,991		10,991
964	Bad debt - tenant rents	6,722		6,722
965	Bad debt- mortgages	-		-
966	Bad debt – other	4,655		4,655
967	Interest expense			-
968	Severance expense			-
969	<b>TOTAL OPERATING EXPENSES</b>	526,850	1,249	528,099
970	<b>EXCESS OPERATING REVENUE OVER OPERATING EXPENSES</b>	43,079	141,774	184,853
971	Extraordinary maintenance	-		-
972	Casualty losses - non-capitalized			-
973	Housing assistance payments		-	-
974	Depreciation expense	294,909	14,358	309,267
975	Fraud losses			-
976	Capital outlays- governmental funds	-		-
977	Debt principal payment- governmental funds			-
978	Dwelling units rent expense			-
900	<b>TOTAL EXPENSES</b>	821,759	15,607	837,366

	<b>OTHER FINANCING SOURCES (USES)</b>			
1001	Operating transfers in			
1002	Operating transfers out			
1003	Operating transfers from/to primary government			
1004	Operating transfers from/to component unit			
1005	Proceeds from notes, loans and bonds			
1006	Proceeds from property sales			
1010	<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	-	-
1000	<b>EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES</b>	(251,830)	127,416	(124,414)

ROYAL OAK TWP HOUSING COMMISSION  
Schedule of Annual Federal Awards  
For the Year Ended March 31, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3166 Operating Subsidies	\$ <u>367,516</u>
* <u>CFDA 14.872 Capital Fund Program</u>	
C-3166 Capital Fund Program	\$ <u>143,023</u>
	\$ <u>510,539</u>

\*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 13,344,872
General Liability	3,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

ROYAL OAK TWP HOUSING COMMISSION  
Status of Prior Audit Findings  
March 31, 2004

The prior audit of the Royal Oak Twp Housing Commission for the period ended March 31, 2003, contained four audit findings; the corrective action taken by the Commission is as follows:

- 1) Excessive Accounts Receivable- the level of Accounts Receivable has decreased, however, still remains above acceptable levels; see findings.
- 2) Tenant Accounting Discrepancies- some of the issues have been corrected, others have not; see findings.
- 3) policies not up to date- some policies have been revised, but nothing has been finalized; see findings.
- 4) Davis Bacon Act Discrepancies- same situation exists in the current year; see findings.

ROYAL OAK TWP HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards*  
March 31, 2004

Compliance

I have audited the compliance of Royal Oak Twp Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended March 31, 2004. Royal Oak Twp Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Royal Oak Twp Housing Commission's management. My responsibility is to express an opinion on Royal Oak Twp Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Royal Oak Twp Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Royal Oak Twp Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

Low Rent Public Housing:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Excessive Accounts Receivable	03-1	Program Income
Policies not up to date	03-3	None
Tenant Accounting Discrepancies	04-1	Activities Allowed or Unallowed
1099's not issued	04-2	Other Requirements
Inspector General Audit	04-3	Equipment and Real Property Management; Other Requirement
Travel Policy Discrepancies	04-4	Activities Allowed or Unallowed

Capital Funds Project:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Davis Bacon Act Discrepancies	03-4	Davis-Bacon Act

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2004.

Internal Control over Compliance

The management of Royal Oak Twp Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Royal Oak Twp Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commissions ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

November 5, 2004



ROYAL OAK TWP HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards*  
March 31, 2004

I have audited the financial statements of Royal Oak Twp Housing Commission, Royal Oak Twp, Michigan, as of and for the year ended March 31, 2004, and have issued my report thereon dated November 5, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Royal Oak Twp Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Royal Oak Twp Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note instances which may be considered weaknesses that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

November 5, 2004

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 ROYAL OAK TWP HOUSING COMMISSION  
 Schedule of Findings and Questioned Cost  
 March 31, 2004

**Summary of Auditor's Results:**

Programs:

	Major Program	Non Major Program
Low income Public Housing	X	
Capital Projects Fund	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ Yes	_____ <u>X</u> No
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Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ <u>X</u> Yes	_____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

Name of Federal Program	Major Program	Questioned Costs	Audit Finding Number
Low Rent Public Housing	Yes	None	03-1; 03-3; 04-1; 04-2; 04-3; 04-4
Capital Projects Fund	Yes	None	03-4

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ROYAL OAK TWP HOUSING COMMISSION  
Schedule of Findings, Recommendations and Replies  
March 31, 2004

The following findings of the Royal Oak Twp Housing Commission, for the year ended March 31, 2004, was discussed with the Executive Director, Ms. Vickie Wells, in an exit interview conducted December 22, 2004:

Finding 03-01:

Excessive Accounts Receivable.

Average tenant accounts receivable based on units in possession at March 31, 2004, were \$ 90., HUD prescribes \$ 15 per unit average as acceptable. This is a repeat finding.

Recommendation

The Commission has undergone a couple of administrative changes both in the executive and administrative management levels. Key staff positions have not been filled consistently over the past two years; as a result, monitoring and collecting accounts receivable have not been at acceptable levels.

I recommend the Commission hire sufficient staff to conduct the business of the Commission and continue in it's efforts to get the accounts receivable level below the minimum threshold as required by HUD.

Reply

We concur with your recommendation. A new staff member with previous PHA experience will start January 3, 2005. One of her primary functions will be monitoring and taking swift action toward tenant account receivables which includes filing legal action.

Finding 03-04:

Davis Bacon Act Discrepancies

The Commission obtained copies of certified payrolls from the contractors and did receive a wage determination from the Department of Labor; however, failed to conduct employee interviews. This is a repeat finding.

**Recommendation**

The Commission collected the required documents and reviewed them for compliance, however, without third party verification, the Commission can only accept the contractor's statements as accurate. The purpose of the interviews are to obtain first hand information from the employees what they are doing, being paid, and job classification. Without that data, the contractor can represent hours, jobs, rates without question.

I recommend the Commission conduct the periodic interviews and compare them to the certified payrolls as required by HUD.

**Reply**

We concur with your recommendation and this very important task shall be implemented.

Finding 04-01:

Tenant Accounting Discrepancies.

The following discrepancies were noted in a recent review of tenant files: 5 of 7 files tested used the incorrect income amounts to calculate rents; one file lacked a completed citizenship form; 6 of 7 files did not contain inspection reports. Some of these items were cited as findings in the prior year.

**Recommendation**

Even though the sample size was small (5%), it demonstrated several problems which may be applicable to the entire population. The previous audit also stated income verification and rent computation errors; the above indicates that the income verification process continues as a problem.

I recommend the Commission train and monitor the individuals responsible for tenant leasing and continued occupancy. In addition, I recommend the Commission institute a plan to review all tenant files to insure compliance.

**Reply**

We concur with your recommendations and will create QA process which will consist of 100% file review initially, thereafter, a minimum of 5% per month. Also the Resident Selection Specialist will receive additional income calculation training in 2005. Further, we addend this position job requirement include a certification designation of Certified Occupancy Specialist or equal vent.

Finding 04-02:

Policies not up to date.

A review of several of the Commission's written policies indicated that they did not meet current compliance with HUD regulations. The Admissions and continued occupancy policy, procurement policy, and others used language which is outdated. This is a repeat finding.

**Recommendation**

The Commission's control over staff should be clearly understood and reduced to writing. The policies should be concise, and adhere to acceptable practice as well as HUD regulations.

I recommend the Commission review all its policies and rewrite those that are outdated or do not comply with HUD regulations.

**Reply**

We concur with your recommendation and we anticipate reviewing and drafting new policies by the end of the 1<sup>st</sup> quarter of the new fiscal year.

Finding 04-3: 1099's not submitted.

The Commission paid individuals more than \$ 600. for the calendar year 2003, however, failed to issue 1099's as required by the Internal Revenue Service (IRS)

**Recommendation**

The Commission is obligated to follow all Federal, State and Local ordinances, as well as its own policies; the IRS requires 1099's be provided to all individuals that are paid \$ 600 or more in the calendar year, also any attorney that is paid regardless if incorporated, and regardless of the amount.

I recommend that the Commission issue 1099's for calendar 2004 and continue to comply with all IRS regulations.

**Reply**

We concur with your recommendation and we will review all payables and identify any vendor who falls within the identified IRS threshold and we will issue 1099 for 2004.

Finding 04-4: Inspector General Audit Report.

The Office of Inspector General (IG) for HUD conducted an audit of the Royal Oak Twp. Housing Commission and issued their report on November 29, 2004. The report cited the following findings:

- Public Housing Units did not meet Federal Requirements for Physical Condition and Handicap Accessibility
- Board Commissioners Interfered with the Day-to-Day Operations of the Housing Commission

**Recommendation**

The audit report goes into great detail outlining the unit deficiencies and suggests it may cost as much as \$ 5 million to repair. The report cites over 1100 deficiencies; it also examines the funding the Commission has received in the past several years. The report suggests that if all the funds had been properly applied, these deficiencies may not have occurred, and concludes that to punish the Commission for these failures, last years subsidy should be returned to HUD. I disagree with that position; the only people that will be punished are the low income families residing in Public Housing; the Board and Management has been replaced, to recapture needed funds to repair the units will not accomplish the goal of punishing mismanagement.

In addition to the units not being properly maintained, Board interference was cited. The report goes gives specific examples of inappropriate behavior including housing individuals that don't meet the one strike and your out rule; purchase of a sign that was not budgeted for; paying for attorney travel when specifically prohibited by HUD; and hiring and disciplinary action. The examples demonstrate micro management on behalf of the Board and decisions against HUD requirements.

I recommend the Commission address the issues cited in the IG report; the repairs will involve years of Capital Fund Project funding, however, the other issues can and should be addressed immediately.

**Reply**

The Commission will address all repairs cited in the IG report as well as develop and implement a QA process to ensure upkeep of the units are being maintained by the occupants. In addition, we will review and revise the current inspection forms to incorporate the current HQS and UPCS standards. These measures coupled with on going staff training should correct past oversights of maintenance deficiencies as well as maintain acceptable housing standards.



Finding 04-5: Travel Policy Violations

The Commission has a per diem policy which allows the recipient to receive \$ 75 a day for out of town travel and no receipts are required. The IRS requires an accounting be made for all per diem above \$ 45. a day.

**Recommendation**

The IRS has established per diem allowances; in the event that the allowance exceeds the IRS levels, the individual must either make an accounting to the Company (Commission), or the advance must be included on a 1099 for Commissioners or the employees W-2. The current IRS level for per diem in a high income local is \$ 45 per day. The travel policy exceeds IRS levels therefore will require an accounting or inclusion of the travel advance on the employees W-2 or a 1099 for Commissioners.

If the Commission chooses to have a per diem above the IRS level, an accounting must be made for the entire advance; if no receipts are available, the advance must be returned to the Commission. If the Commission does not require an accounting be made, the entire advance must be included on a 1099 for Commissioners, or on the employees W-2. If the amount is included on a 1099 or W-2, the individual could make an accounting on their personal income tax returns.

I recommend the Commission consider the above and adjust the travel policy accordingly.

**Reply**

Effective January 1, 2005, ROTHC will have new appointed commissioners and this matter will be brought before the body to make a resolution regarding which method the commissioners wish to adopt. A new policy will be developed and implemented for all persons participating ROTHC travel activities.

